LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6377
BILL NUMBER: HB 1605

NOTE PREPARED: Feb 13, 2015
BILL AMENDED: Feb 12, 2015

SUBJECT: Tax Credit for Medical Device Manufacturers.

FIRST AUTHOR: Rep. Smaltz
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) The bill provides a tax credit against Adjusted Gross Income (AGI) tax liability for taxpayers who: (1) are subject to the federal Medical Device Excise Tax (MDET); and (2) receive certification of a credit amount from the Indiana Economic Development Corporation (IEDC) based on the taxpayer's creation or retention of jobs in Indiana. The bill provides that the tax credit: (1) applies to taxable years after December 31, 2014, and before January 1, 2017; (2) may not be awarded after the date on which the federal MDET is repealed or expires under the Internal Revenue Code; and (3) shall not exceed the amount of federal MDET the corporation paid for the previous calendar year.

Effective Date: Upon passage.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise forms, update instructions, and modify the existing tax processing system to implement this bill. The DOR's current level of funding and resources should be sufficient to administer this tax credit.

(Revised) *Indiana Economic Development Corporation (IEDC):* The IEDC will incur additional expenses to administer this program. The IEDC's current level of funding and resources should be sufficient to administer this tax credit.

Explanation of State Revenues: (Revised) *Summary* - The bill establishes a tax credit for medical device manufacturers. The estimated revenue loss from taxpayers claiming this may range from \$2.3 M to \$4.6 M per year in FY 2016 and FY 2017. The actual revenue loss associated with the bill depends largely on the number of applicants and the amount of credits authorized by the IEDC.

A qualified taxpayer is defined as a business that has a federal medical device excise tax (MDET) liability. The credit may be offered for jobs created or retained by a qualifying taxpayer between May 15, 2015, and January 1, 2017. The tax credit goes into effect beginning in tax year 2015, and the revenue impact could begin in FY 2016. This credit may be applied to the Individual or Corporate AGI tax. Credits claimed will directly reduce deposits to the state General Fund.

(Revised) *Additional Information* - The credit equals $5,000 per new job created in the taxable year. The credit for retaining jobs equals $2,500 per job retained in the taxable year. The total credit awarded to a taxpayer may not exceed the MDET liability paid by the taxpayer in the previous calendar year. The bill also contains a provision that prohibits issuing and awarding credits if the MDET is repealed or expires.

The revenue estimate is based on the forecasted changes in employment within the medical device manufacturing sector between 2015 and 2016. The range of the estimate is derived from different growth rates used to forecast the sector employment, as well as assumptions on the percent of the total jobs that will be awarded the credit. The lower bound estimate assumes the total sector employment will grow at the historic rate since the passage of the MDET and assumes the credit will be awarded to businesses whose employees represent 5% of all medical device manufacturing jobs. The upper bound estimate assumes the total sector employment will grow at the historic rate before the passage of the MDET and assumes the credit will be awarded to businesses whose employees represent 10% of the total sector employment. Both revenue loss estimates were adjusted to account for the additional hiring of qualifying employees induced by the tax credit. The estimate also assumes the credit is refundable.

Federal Medical Device Excise Tax- The MDET is an excise tax imposed on the sale of certain medical devices by the manufacturer or importer of the device. The tax applies to the sale of taxable medical devices beginning in CY 2013. The tax equals 2.3% of the sale price of the device.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation.

Local Agencies Affected:

Information Sources: LSA Income Tax Database; Internal Revenue Service, *Excise Taxes (Including Fuel Tax Credits and Refunds), Publication 510*, revised July 2013; Bureau of Labor Statistics, Quarterly Census of Employment and Wages, Released June 20, 2014; Sasser, Alicia, New England Public Policy Center: *The Potential Economic Impact of Increasing the Minimum Wage in Massachusetts*, January 2006; Global Insights, Indiana Statewide Forecast, September 2014; U.S. Census Bureau, Annual Survey of Manufactures: Geographic Area Statistics: Statistics for All Manufacturing by State: 2011 Refresh, Released December 17, 2013, accessed on November 29, 2014.

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